

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 PA-01 PRS-01 /086 W
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R 090910Z JUN 77
FM AMEMBASSY PRAGUE
TO SECSTATE WASHDC 2898
INFO AMEMBASSY BERLIN
AMEMBASSY BELGRADE
AMEMBASSY BUCHAREST
AMEMBASSY BUDAPEST
AMEMBASSY MOSCOW
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION NATO
USDOC WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 PRAGUE 1576

E.O. 11652: GDS
TAGS: EALR, EFIN, EGEN, ETRD, CSCE, CZ
SUBJECT: AMBASSADOR CALLS ON FINANCE MINISTER LER

REFS: (A) PRAGUE 1476, (B) PRAGUE 0770, (C) PRAGUE 0023

1. SUMMARY: AMBASSADOR CALLS ON FINANCE MINISTER LER.
MEETING IS QUITE USEFUL, CORDIAL AND FREE OF POLEMICS.
TOPICS DISCUSSED INCLUDE EMBASSY ACCESS TO GOC DATA AND
OFFICIALS, FOREIGN BORROWINGS AND POSSIBLE CHANGE IN GOC
ECONOMIC POLICY, INCOME TAX ON RESIDENT WESTERNERS, ROLE
OF MINFIN AND IMF. MINISTER IS RECEPTIVE TO LATER MEETING.
COMMENT: LER EVIDENTLY IS CAPABLE, RELATIVELY APOLITICAL
TECHNOCRAT. ALTHOUGH POLITICAL CONSIDERATIONS COULD NIP
RELATIONSHIP IN BUD, AMBASSADOR HOPES TO SEE LER AGAIN AND
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DRAW HIM OUT MORE ON HOW GOC IS DEALING WITH ITS
SERIOUS ECONOMIC PROBLEMS. END SUMMARY.

2. ON JUNE 7, ALMOST ONE YEAR AFTER MY PRESENTATION
OF CREDENTIALS AND SUBSEQUENT REQUEST FOR THIS AND
OTHER INTRODUCTORY MEETINGS, I PAID CALL ON FEDERAL
FINANCE MINISTER LEOPOLD LER, WHOM I HAD MET BRIEFLY

ONCE BEFORE. TWO OTHER MINFIN OFFICIALS (JIRI VETROVSKY, DEPARTMENT DIRECTOR, AND AN INTERPRETER NAMED NOVOTNY) SAT IN. I WAS ACCOMPANIED BY E/C COUNSELOR.

3. OUR QUITE USEFUL, HOUR-LONG MEETING WAS MARKED BY GENUINE CORDIALITY AND BY RELATIVE CANDOR OF LER. THE MINISTER CONSISTENTLY AVOIDED POLEMICS AND STATEMENTS ON FAMILIAR GOC POSITIONS AND SEEMED GENUINELY INTERESTED IN FOSTERING A DIALOGUE. MAJOR POINTS DISCUSSED ARE SUMMARIZED BELOW.

4. EMBASSY ACCESS TO GOC DATA AND OFFICIALS: AFTER FRIENDLY WELCOMING REMARKS ON BOTH SIDES, I RAISED THIS TWO-PRONGED PROBLEM AS I HAVE IN PREVIOUS MEETINGS WITH SENIOR CZECHOSLOVAKS. CITING LONG DELAY IN ARRANGING THIS CALL AND DIFFICULTIES OTHER EMBASSY OFFICIALS HAVE HAD IN SEEING GOC OFFICIALS AND OBTAINING BASIC ECONOMIC DATA, I SAID THAT THIS TREATMENT DOES NOT HELP US BRIDGE THE GAP WHICH SEPARATES USG AND GOC. I ASKED SPECIFICALLY WHETHER EMBASSY MUST CONTINUE TO REQUEST MINFIN APPOINTMENTS THROUGH MINISTRY OF FOREIGN AFFAIRS. LER WAS CONCILIATORY BUT EVASIVE. HE AGREED THAT SUCH CONTACTS ARE USEFUL BUT NOTED HOW BUSY SENIOR GOC OFFICIALS ARE (IGNORING MY POINT THAT EMBASSY IS MOST WILLING TO DEAL WITH JUNIOR OFFICIALS IF THEY ARE KNOWLEDGEABLE). HE SAID MFA "MUST BE INVOLVED" IN OUR CALLS ON MINFIN BUT HINTED THAT SOME CONFIDENTIAL

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DIRECT CONTACT MIGHT BE POSSIBLE.

5. FOREIGN BORROWINGS AND POSSIBLE CHANGES IN GOC ECONOMIC POLICY: I ASKED FOR DETAILS ON POSSIBLE UP-COMING GOC BORROWING IN WEST (REF A), BUT LER SAID NOTHING OF SUBSTANCE ON THIS, NOTING ONLY THAT CZECHOSLOVAKS USE "CREDITS" (I.E., NOT "LOANS") LIKE EVERYBODY ELSE AND THAT SIXTH FIVE YEAR PLAN ENVISIONS INCREASED USE OF CREDITS. I MENTIONED REFERENCE IN PRESIDENT HUSAK'S MAY 25 SPEECH BEFORE ROH TRADE UNION CONGRESS TO THE NEED FOR IMPROVING ECONOMIC MANAGEMENT AND ASKED WHETHER THIS SPEECH AND APPARENT GOC DECISION TO BORROW ABROAD MORE REGULARLY MIGHT PRESAGE IMPORTANT ECONOMIC POLICY CHANGES. LER ANSWERED THAT HE, "UNFORTUNATELY" (FOR HIMLN CHAIRS AND OFFICIAL COMMITTEE LOOKING FOR WAYS TO ACHIEVE "BETTER MANAGEMENT" SO THAT HIGH LIVING STANDARDS AND RETAIL PRICE STABILITY CAN BE MAINTAINED DESPITE CHANGING WORLD

SITUATION, NOTABLY RECENT PRICE RISES FOR OIL IMPORTS. HE SAID THAT "ELASTICITIES OF RESPONSE" OF CZECHOSLOVAK ECONOMY TO THESE CHALLENGES ARE INADEQUATE. HE NOTED THAT DSSR COULD CREATE ANOTHER 500,000 JOBS BY EXPANDING PRODUCTION OF EXPORT ITEMS IN WHICH IT HAS INTERNATIONAL COMPARATIVE ADVANTAGE (BREWERIES, SUGAR MILLS, POWER GENERATING EQUIPMENT, TRACTORS AND LOCOMOTIVES, AMONG OTHERS), BUT IT DOES NOT HAVE THE WORKERS. GOC FAVORS GREATER SPECIALIZATION AND EXPANDED COOPERATION WITH WEST AS WELL AS CEMA, HE SAID, BUT FACES PROBLEMS OF DOMESTIC "CONSERVATISM" AND INGRAINED HABITS THAT MAKE ECONOMIC MANAGERIAL CHANGES DIFFICULT.

6. INCOME TAX ON RESIDENT WESTERNERS: I SHOWED LER THE COPY EMBASSY RECENTLY OBTAINED OF A MAY 20 LETTER FROM THE PRAGUE DISTRICT FINANCIAL ADMIN-
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ISTRATION TO LOCAL PAN AMERICAN REPRESENTATIVE STATING THAT REP MUST START PAYING TAX ON LOCAL INCOME EARNED AFTER JANUARY 1, 1977. I EXPRESSED CONCERN THAT SUCH A LETTER WOULD HAVE BEEN SENT OUT, WITHOUT PRIOR NOTICE, JUST BEFORE SPECIFIED DEADLINE (JUNE 3) FOR FIRST TAX PAYMENT TO BE MADE. APPARENTLY UNINFORMED THAT SUCH LETTERS HAD BEEN SENT OUT TO ALL WESTERN AIRLINE REPRESENTATIVES (AND PERHAPS OTHERS), LER EXAMINED OUR COPY CLOSELY AND INSTRUCTED VETROVSKY TO FOLLOW UP ON THIS WITH EMBASSY. (SEPTTEL FOLLOWS.)

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FM AMEMBASSY PRAGUE
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C O N F I D E N T I A L SECTION 2 OF 2 PRAGUE 1576

7. REPRESENTATIONAL OFFICES FOR WESTERN FIRMS: IN
REPLY TO MY QUERY, LER SAID WESTERN FIRMS DO NOT HAVE PROBLEM
WITH TAXES OR HIS MINISTRY REGARDING OPENING SUCH OFFICES
(REF C). HOWEVER, HE CONCEDED THAT PROBLEMS ELSEWHERE (HOUSING,
OFFICE SPACE, EMPLOYEES) DO EXIST.

8. ROLE OF THE MINISTRY: WITH BOTH MODESTY AND FACTUALITY, LER
OBSERVED THAT HIS MINISTRY IS NOT AS SIGNIFICANT IN THE CZECHOSLOVAK
POLITICAL CONTEXT AS ARE THE TREASURY IN WASHINGTON AND FINANCE
MINISTRIES IN WESTERN EUROPE. HE ATTRIBUTED THIS MAINLY TO THE
EXISTENCE OF THE STATE PLANNING COMMISSION, WHICH EXERCISES THE
IMPORTANT PLANNING FUNCTION AND WITH WHICH HIS MINISTRY WORKS
"IN COOPERATION, NOT IN OPPOSITION." NEVERTHELESS, HE NOTED
THAT MINFIN'S MONETARY AND FINANCIAL RESPONSIBILITIES ARE IMPORTANT.

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9. INTERNATIONAL MONETARY FUND: IN RESPONSE TO QUESTIONS, LAR SAID
THAT GOC-AN ORIGINAL IMF MEMBER- HAS NOT BEEN A MEMBER SINCE
ITS 1954 MONETARY REFORM BECAUSE IT CANNOT PROVIDE "REQUIRED
INFORMATION". HE SAID FALTALY GOC HAS NO INTEREST IN RENEWED
MEMBERSHIP.

10. FOLLOW-UP: AT END OF THIS VER AMIABLE AND (BY PRAGUE
STANDARDS) REASONABLY INFORMATIVE MEETING, I THANKED LER FOR HIS
OPENNESS AND EXPRESSED HOPE THAT OUR DIALOGUE WILL CONTINUE.
I SPECIFICALLY SUGGESTED A LUNCHEON AT MY RESIDENCE AROUND NEXT
SEPTEMBER, AND LER SMILINGLY SAID HE HAD "NO OBJECTION" TO
SUCH AN EVENT.

11. COMMENT: MY TALK WITH LER INDICATES THAT HE IS ONE OF THE
MORE CAPABLE, CANDID AND RELATIVELY APOLITICAL GOC MINISTERS.
A 49-YEAR OLD MORAVIAN, LER SEEMS TO BE A VERY RARE TECHNOCRAT IN THE
HIGH LEVEL GOC AERIE POPULATED MOSTLY WITH HACKS AND IDEOLOGUES.
DESPITE HIS MODESTY, HE OBVIOUSLY KNOWS A GREAT DEAL, ESPECIALLY
ABOUT ANY POLICY CHANGES THAT GOC MIGHT MAKE IN ECONOMIC SPHERE.

IN PRAGUE, WHERE OUR CONTACTS WITH SENIOR OFFICIALS ARE LIMITED AND TOO OFTEN STERILE, THIS EXCHANGE WAS REFRESHINGLY STRAIGHTFORWARD AND INFORMATIVE. ALL SUCH CONTACTS ARE, OF COURSE, HEAVILY INFLUENCED BY GOC POLITICAL CONSIDERATIONS, WHICH MIGHT ULTIMATELY CAUSE THIS RELATIONSHIP TO BE NIPPED IN THE BUD. NEVERTHELESS, I LOOK FORWARD TO SEEING LER AGAIN AND HOPEFULLY TO DRAWING HIM OUT ON THE SPECIFICS OF HOW GOC IS DEALING WITH ITS SERIOUS ECONOMIC PROBLEMS BEYOND THE INTERESTING GENERALITIES HE HAS ALREADY PRESENTED.
BYRNE

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